



County of Los Angeles CHIEF EXECUTIVE OFFICE

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SACHI A. HAMAI
Chief Executive Officer

Board of Supervisors
HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
Second District

SHEILA KUEHL
Third District

JANICE HAHN
Fourth District

KATHRYN BARGER
Fifth District

September 20, 2017

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Sachi A. Hamai 
Chief Executive Officer

REPORT BACK – STRENGTHENING FISCAL PRUDENCE (ITEM NO. 73-E, AGENDA OF APRIL 18, 2017)

On April 18, 2017 on a joint motion by Supervisors Kathryn Barger and Mark Ridley-Thomas, the Board instructed the Chief Executive Officer, in consultation with County Counsel to report back during the Supplemental Budget on the feasibility of: 1) requiring budget augmentations to identify cost offsets in other areas that can be utilized, to address the funding need rather than utilizing County general funds; 2) requiring rigorous analysis of potential future cost savings for new programs or services, if utilized as a justification for funding the program; 3) requiring that funding requests for new programs or services clearly define a realistic sustainability plan prior to Board consideration; and 4) increasing the Rainy Day Fund requirement above the current rate of ten percent in order to ensure that in the face of substantial fiscal uncertainty, sufficient resources are available, if needed, to fund critical services for County residents.

As instructed by the Board, and in collaboration with County Counsel, we have reviewed our current practices and existing budget policies and guidelines. These practices and policies demonstrate this and previous Boards' long-standing commitment to fiscal prudence and conservative budget practices. These policies and practices helped the County to weather the Great Recession without major service reductions, layoffs, or furloughs. Over the last several years, the County has continued making progress in the area of fiscal prudence and stability by taking steps to address long-term budget issues

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such as increasing contributions to the Rainy Day Fund and implementing a multi-year plan to prefund other post-employment benefits. The following summarizes our current practices and policies with options for potential changes.

Cost Offsets

As part of our annual budget process, our office issues instructions to budget analysts as well as Departments to guide budget analysis. These instructions require Departments to provide detailed information regarding each budget request. This information allows budget analysts from our office to review requests and make informed funding recommendations. Instructions currently require Departments to assess cost offsets by reviewing existing positions or deleting vacant positions before requesting funding for new positions. Our office also requires Departments to provide a comprehensive list of all revenues each year. This list is used as a tool to identify potential funding sources for new services and programs. Additionally, Departments are required to routinely review their costs for overtime and rehired retirees for possible cost reductions. Analysts in our office are required to review each budget request and work with their assigned Department to identify potential cost savings before requesting County general funds for new programs or services. Ultimately, our funding recommendation to the Board takes into consideration cost offsets identified to the extent possible. Based on our budget instructions and policies and the practices outlined above, our office has and continues to identify cost offsets prior to considering the use of County general funds. Although our intent is to minimize the use of County general funds, there may be some budget proposals that will require their use.

Cost Saving Measures

Budget instructions also emphasize the need for Departments to review their budget and operations to identify possible cost saving measures. Departments are requested to review and identify efficiencies through administrative and program consolidations, information technology efficiencies, and legislative changes that would provide greater budgetary flexibility. Departments are required to complete schedules to quantify anticipated cost savings for each proposed efficiency. These cost savings estimates are submitted to our office for further review and analysis. Recommendations to fund these programs are based on careful analysis of future cost savings and operational effectiveness. Based on our budget instructions and the practices outlined above, our office has and continues to thoroughly analyze cost savings for new programs or services.

These policies and practices discussed above will be reinforced to departments and analysts in our office as we begin planning for the development of next year's budget.

Sustainability Planning

Board Policy 4.030 – Budget Policies and Priorities supports prudent fiscal practices by ensuring funding requests submitted as part of the budget process have a sustainable funding plan. This policy requires budget decisions and recommendations consider projections of revenue and expenditures beyond a single fiscal year and that a multi-year funding plan be developed. The Board may consider updating this policy to include any funding requests submitted to the Board outside the budget process. This would allow our office to make funding recommendations within the context of the overall budget and competing priorities, and ensure they are financially sustainable prior to Board consideration.

Rainy Day Fund

The County's current reserve policy is outlined in Budget Policy 4.030 – Budget Policies and Priorities. The policy sets a reserve cap of ten percent of ongoing locally generated revenues. Currently, the County has met 67 percent of the ten percent reserve cap. Our office proposes a five-year plan of approximately \$39.0 million a year to reach the prescribed level for the County's Rainy Day Fund. Once the ten percent reserve cap is reached, we will revisit the issue of a 15 percent Rainy Day Fund level. Should opportunities arise to supplement the Rainy Day Fund beyond the planned amounts, our office would seek Board approval to accelerate the replenishment of the fund.

If you have any questions or need additional information, please contact Angela Schiller at (213) 974-1282 or at aschiller@ceo.lacounty.gov.

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AS:GS:cg

c: Executive Office, Board of Supervisors
County Counsel